

July 12, 2004

QUOTE OF THE WEEK

"I don't make jokes. I just watch the government and report the facts." Will Rogers

UNDER THE DOME

When a Deadline Is Not a Deadline

Yes, I know the California Constitution says the state budget must pass by June 15th. The intent of this requirement is to give the Governor two weeks to consider the budget then sign it before the new fiscal year starts. But since the Governor's staff writes the budget, he really does not need two weeks. Yes, I know the fiscal year starts on July 1st and that if there is no budget, then there is no spending authority. However, court cases and emergency statutes have made missing this deadline virtually risk-free. No state employee is off the clock due to lack of pay. No vendor is getting checks any later than they already do. In fact, the bills for June just coming in now are paid with June money that is from last year's budget authority. July's bills will not show up until August.

The truth is that once the self-imposed political barrier of July 1st is breached, then there are no consequences for at least two weeks (mid-July, when some state employees are due paychecks). Budgeteers have already suffered the bad headlines for being late, so now the pressure is on to gain some budget 'victory' that justifies holding up the budget. Not only do the terms of the budget have to be negotiated, but also the terms of who won and who lost have to be articulated so that everyone has something to allow them to save face.

Unless the courts reverse themselves to actually implement the Constitution the way it reads, there will always be late budgets. The consequences of being late are far less important than the philosophical fight over the direction of the state budget.

Different Rules for Reps and Dems

California's term limit laws restrict state senators to two terms, of four years each. A partial term counts the same as a full term if the senator served more than half of it. When Senator Dick Mountjoy (R-Monrovia) sought to run for a second full term in 2002, election officials told him that he was barred by term limits, despite the fact that he had only served 678 days of his first 1,456-day term (46.6% -- less than half). Instead of considering the actual dates of his senate service -- that is, beginning the day he was sworn-in to the Senate-- election officials apparently counted his term as if it began on

the date of the special election (even though final election results were not available for several weeks after election day.)

This year, a Democrat is facing a very similar situation, but the outcome is quite different. State Senator Don Perata (D-Oakland) was elected in a special election in 1998 and, using the criteria established in the Mountjoy case, he served 762 days of his first 1,463-day term (52.1%). Instead, the Attorney General and the Secretary of State (both Democrats) decided to ignore the Mountjoy precedent and ruled that Senator Perata's service should be counted from the date he was sworn-in to the Senate. By this method, he had served only 49.6% of his first term, so he is being permitted to run for a third term.

No word yet on whether Senator Mountjoy will be permitted to use this new precedent to run again. I am not holding my breath.

ECONOMIC NEWS

*****American Productivity is Soaring*****

Last week I read a thoughtful Tech Central Station column by Arnold Kling that lays out what might be the most under-reported story on our economy. (See this link for the full story: <http://techcentralstation.com/070804D.html>)

Kling reports on the startling four-year increase in the productivity of the American workforce. He calculates productivity by using the Bureau of Labor Statistic's output per hour in the nonfarm business sector. Between 2000 and 2004, America experienced an astonishing 17% increase in productivity. This is the best increase since the 9% gain between 1972 and 1976. It even beats any eight-year period since 1976.

Kling goes on to argue that this measure is the basic determinant in our standard of living. He sees high productivity as a defense against outsourcing by making America more competitive. He contends that increased productivity helps pay for massive national commitments like Medicare and Social Security. He even makes a case that high productivity is good for the environment because countries with more wealth can afford to develop cleaner technologies.

The reason for this increase? Kling believes it is the promise of the Internet and computing age finally being realized. Computers have finally become powerful and cheap enough that companies can collect the data and put in place problem-solving solutions that deliver much greater efficiencies into the marketplace.

I would love to hear from all the economists out there (armchair or professional) on other theories of the startling increase in America's productivity.

*****Will It Be Called Bush's Recovery?*****

It is long past time for us to celebrate the good news of the American economy. According to a Stephen Moore article in National Review, revised Commerce Department data now show that the last recession began in the third quarter of 2000, about six months before Bush took office. So, as the author points out, job losses were baked into the Bush administration's cake before a single economic policy of the President's was ever implemented. This did not stop people from calling it Bush's recession, however. Three years later, the picture is much brighter. Consider this: Even though America experienced 9/11 and has since shouldered the lion's share of the burden for fighting terrorism, our economy has not only grown, it has grown about one-third faster than Europe's over the past three years. Just looking at what has occurred since Bush's tax cut was passed last year, every major economic indicator is up sharply. In May 2003, the DOW was at 8600, the NASDAQ was at 1510; those figures are now, 10,200 and 1900, respectively. Moreover, real GDP, productivity, housing starts, and unemployment are all much improved.

Some on the other side of the aisle like to speak of their belief in a European "third-way" economic model -- which is supposedly a kind of socialism-lite -- as the better alternative for improving the lot of average Americans. But do high tax rates and cradle-to-grave social safety nets bring us to the economic promise-land? Recent unemployment figures pegs Europe's rate of joblessness at 9%, compared to 5.6% in the U.S. Consider this: If the Europhiles had been able to make America more like Europe, there would be roughly three million more unemployed job seekers in America today.

TAX TIPS

*****Taxpayer Help Available*****

The end of July is the deadline for reporting second quarter sales and use taxes. Those of you who are new in business may be frustrated trying to apply all the laws to your work and meet the paperwork demands. There is help available. One of the goals of the Board of Equalization, and one of my highest priorities serving on the Board, is that taxpayers are educated about complying with the law and that their burden in doing so is minimized. The "Taxpayer Educational Consultation Program" aims to do just that.

The idea is to provide individualized sales and use tax education assistance to taxpayers during their first year of operation. If you have started a new business in the last twelve months, have filed at least two SUT returns, and are using certain business or tax codes that have historical problems or are in industries with recent law or regulatory changes, you are eligible for help. An experienced Board auditor will meet with you to discuss your business operations and record keeping. They will review sample transactions, explain how the taxes apply to you, and identify areas that could be problematic for you in the future.

If you would like to take advantage of this free service to help ease your tax burden, call the audit section at the BoE headquarters at (916) 324-2883.

ISSUE FOCUS

*****Citizenship Test 2*****

A few of this week's citizenship questions should be simple for you since we just celebrated the Fourth of July. Unfortunately, for many, that day has simply become another reason to barbecue. I hope that the fireworks show you attended included narration detailing the birth of our nation, as well as honoring the men and women who have died to keep it free.

8. How many states are there in the Union?
9. What is the 4th of July?
10. What is the date of Independence Day?
11. Independence from whom?
12. What country did we fight during the Revolutionary War?

BOE AND LEGISLATIVE DATES

July 31, 2004 --- Second quarterly Sales and Use Tax payment due

August 2, 2004 --- Legislature reconvenes

August 13, 2004 --- Last day for legislative fiscal committees to meet and report bills to the floor

August 16-31, 2004 --- Floor sessions only; no committee may meet for any purpose

August 24, 2004 --- BOE meets in Sacramento

NOTABLE DATES/ HISTORY

July 11, 1798 --- The U.S. Marine Corps was formally re-established by "An Act for Establishing a Marine Corps" passed by the U.S. Congress. The act also created the U.S. Marine Band. The Marines were first commissioned by the Continental Congress on November 10, 1775.

July 12, 1864 or 1865 --- George Washington Carver was born in the slave state of Missouri and went on to develop industrial applications for agricultural products.

July 12, 1909 --- The 16th Amendment, giving the power to tax incomes to the federal government, was approved by Congress.

July 13, 1787 --- Congress established the Northwest Territory.

July 14, 1771 --- Mission San Antonio de Padua was founded at the confluence of the San Miguel and San Antonio rivers south of present day Big Sur.

July 14, 1798 --- First direct federal tax on the states (on dwellings, land & slaves).

July 15, 1994 --- Actor Arnold Schwarzenegger had his hand- and footprints placed in wet cement in front of Grauman's Chinese Theater in Hollywood.

July 15, 1870 --- Georgia became the last Confederate state to rejoin the Union, following the U.S. Civil War.

July 16, 1969 --- Apollo 11, carrying the first men to land on the Moon, was launched.

July 17, 1744 --- Birth of Elbridge Gerry, the fifth Vice President and Massachusetts Governor who became infamous in 1812 for drawing a congressional district shaped like a salamander to favor his own political party, thus creating the word "gerrymander," was born.

July 17, 1954 --- Construction began on Disneyland, California.

July 17, 1955 --- Disneyland opened its gates in Orange County, California.

July 18, 1969 --- Senator Edward Kennedy drove his car off a bridge on Chappaquiddick Island (near Martha's Vineyard) and emerged unscathed, but his passenger, Mary Jo Kopechne, drowned.

July 18, 2004 --- Senator Edward Kennedy is scheduled to speak to the Democratic National Convention meeting this week in Boston.

July 18, 1984 --- A gunman killed 21 people at a San Ysidro, California, McDonald's restaurant before he was shot and killed by police.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

HOW TO CONTACT ME

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